WALKING THE LIFELONG Tightrope

NEGOTIATING WORK IN THE NEW ECONOMY

A Status Report on Social and Economic Well-Being in the State of California

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Foreword

"The whole saga of frontier growth and westward expansion, the story book version of the American Dream, was given its penultimate staging in a semitropical setting at the western edge of the continent." —Carey McWilliams

Carey McWilliams' words described the California of the 1920s, but to every generation since that era the Golden State has remained the living embodiment of the American Dream. Long before anyone would ever use the term "reinvention," it was California that offered every American a fresh start and a new opportunity for success.

Long before anyone would ever use the term "reinvention," California offered every American a fresh start.

California's emergence as an American Zion was never simply a function of its climate or distance from the aging power centers of the East. More than anything else, it was a reflection of our state's robust economy and the promise it held of a middle-class life to almost anyone willing to work for it. During the World War II era, one of every eight new jobs created in America was in metropolitan Los Angeles alone. Many of these new jobs were in aircraft, steel, aluminum, ship building and other defense industries. Given the furious pace of the state's postwar economic expansion, it was little surprise that by 1963 California had become the most populous state in the union. However, it was never preordained automatically that this economic expansion would lead to the emergence of the middle class that justified California's claim on the American Dream. Indeed, the state's middle class was as much the product of a monumental historical crusade as of growth alone.

In mid-1941, for example, more than 100,000 men and women were employed in Southern California's aircraft factories. Semi-skilled aircraft workers then earned only fifty-cents-an-hour, a wage roughly comparable to what Southern textile workers earned. The robust wages and benefits that lifted aircraft workers into the middle-class were the result of aggressive organizing by two competing labor unions—the United Auto Workers (UAW) and the International Association of Machinists (IAM). By challenging the powerful Aeronautical Chamber of Commerce and successfully introducing collective bargaining to the aircraft

The engine for much of California's economic growth is what many people call the "new economy."

industry, the IAM and UAW, prevented these employers from following the "low-wage" path that textile manufacturers in the South pursued.

Of course, years earlier California's labor movement had previously displayed its ability to transform what were once low-wage industrial jobs into well-paying careers. The 1934 San Francisco general strike in San Francisco not only won unprecedented economic security for the longshore workers who led it, but also helped thousands of workers in the Bay Area win their own battles for union representation. In these and others instances workers proved that collective bargaining was essential to assuring that California's new jobs were not only plentiful, but often lucrative. Workers and their unions played a critical role not only in raising the living standards of union members and, indirectly, other workers but also in enhancing the quality of life and prosperity for all Californians.

That's why this report is so important.

Wealthy, But Not Successful

California enters the twenty-first century as an economic colossus. It has become the nation's leading exporter, with more than $50 billion in merchandise for sale abroad passing through the ports and airports of San Francisco, San Jose and Los Angeles-Long Beach. The engine for much of California's economic growth is what many people call the "new economy"— a complex of service and information technology industries which, in some cases, barely existed a generation ago.

Despite the state's loss in recent years of some 500,000 well-paid jobs in defense and other industries, we're told this new economy has enabled California to compete — and win — in the new global economy. California's old economy manufactured automobiles, aircraft and steel. Its new economy — growing out of the defense and entertainment industries of the past — is producing the world's most sophisticated electronic equipment, creating its entertainment, operating its finest health care facilities and serving as a global center for research and development in dozens of new fields. There's no question that California is setting the pace for economic growth, but all that glitters is not gold. Our state is wealthy, but more comprehensive measures show we do not yet enjoy a fully successful economy.

We see the hourglass economy in the growth of contingent work and low-wage employment.

The Hourglass Economy

Historian Fred Siegal argues that California has "an hourglass economy" marked at one end by growth in well-paying, highly skilled professions and, at the other, by the rapid expansion of low-wage jobs requiring only unskilled labor. We can see evidence of the hourglass economy in the growth of both part-time or contingent work and low-wage and low-skill employment. This is the California of waiters, waitresses, cashiers, sales clerks, low-skilled health care technicians, and similar workers. Many others are employed in Southern California's growing garment industry. Often the men and women holding these jobs are recent immigrants struggling to make their own American Dreams come true. However, the low wages and inadequate benefits they earn offer not the promise of advancement, but only the guarantee of poverty. Still, these workers are not the only Californians at risk.

At the other end of the hourglass, the explosive growth of California's information technology (IT) industries has created a new class of workers who today face an old dilemma. Though California's IT workers are among the world's most productive, even highly skilled professionals are often regarded as little more than a disposable commodity by the state's IT firms.

Many of these companies have set themselves up as "virtual" corporations — businesses that use flexible networks of partners and subcontractors to produce goods and services rather than develop their own internal capacity to do their work. These companies regard a permanent, experienced workforce less as a strategic asset than as an unnecessary expense. This pattern is particularly threatening to middle-aged and older workers. The working lives of many of California's IT professionals are similar to those of professional athletes whose earning capacity peaks early in their careers, but who become almost unemployable as they grow older.

Economic insecurity has become the defining characteristics of the new economy for Californians at both ends of the hourglass.

Economic insecurity has become the defining characteristics of the new economy for Californians at both ends of the hourglass. Over many years of bargaining, unions persuaded employers in the aircraft and automobile industries to offer generous wages, health care, pension benefits, and income security during layoffs or massive restructuring. Union contracts provided workers security and employers an experienced, stable workforce. But corporations in the relatively union-free new economy have taken the opposite approach. With their growing dependence on contract and contingent labor, these businesses see little reason to promote workforce stability to begin with, let alone provide costly benefits to sustain it. Without any form of collective bargaining, Californians working in even the most profitable businesses of the new economy have all too often been left to fend for themselves, shouldering more of the risk of a highly volatile environment.

For example, as this report describes in detail, the largest single category of new jobs created in California in recent years has not been software engineers but employees of temporary help agencies. Compared with a few decades ago or even with other parts of the country, workers in California today are more likely to work a shorter time for any single employer, change jobs more frequently, endure longer periods of unemployment, and suffer greater difficulties in finding good jobs as they get older. In all businesses, but especially in the many smaller, entrepreneurial firms, they are less likely to have secure or comprehensive health care, pensions or other benefits. Even when they perform essential tasks for larger firms, growing numbers of workers are employed in some contingent, contractual relationship that typically increases their insecurity and denies them a share in the success of the larger, core business. All these trends affect not only the less educated workers but even those with advanced degrees.

In addition, the new economy requires continuous learning, but our institutions do not provide it. Many workers at the bottom of the hourglass economy are stuck in low-skill jobs that give them little opportunity to forge meaningful careers that offer new challenges and opportunities. Even workers in the top of the hourglass are often expected to develop new skills repeatedly during their careers but are provided few formal opportunities for further education at work or among fellow workers or members of their profession, where it would be most helpful.

The social contract we envision is less a reconfiguration of the old than a redefinition of the responsibility of each major actor.

Forging The New Social Contract

Citing recent declines in unemployment, productivity gains, and increases in workers' wages, some analysts have argued that market forces will ultimately ease all the social costs of the new economy. This report argues that in most cases that will not be true without new public policies and an organized voice for workers. As Asia's financial crisis demonstrates, California has plentiful opportunities in the global economy, but we also are exposed to serious new risks. In this light, we cannot only concern ourselves with policies that promote economic growth. We must renegotiate the social contract to assure that as new industries move ahead, our families aren't left behind.

The social contract we envision is less a reconfiguration of the old arrangements between business and labor and government than a redefinition of the responsibility each major actor in the economy has to promote a shared prosperity. For business, particularly firms in the IT and service industries, that means acting as good corporate citizens of the community even as they work to succeeding in a competitive, fast-changing marketplace. Employers have a responsibility to help assure that every Californian not only earns fair wages but also receives the training and education necessary to contribute to our state's economic growth. When all employers share the responsibility of training, they will all benefit and no one employer will bear an undue burden.

In a similar vein, policy makers — in our local communities, in Sacramento and in Washington — need to understand that the collapse of the old social contract requires the public sector to play a creative role in helping to shape a new one. This doesn't require policy makers to resurrect particular programs of the New Deal and the Great Society, but it does demand they recognize the essential wisdom of those earlier initiatives—that promoting shared prosperity is a legitimate function of government.

Organized labor will have to redefine the relationship not only between unions and employers but also between workers and the labor movement.

Organized labor also faces new challenges. As America's unions eliminated some of the most brutal employer practices of the past and encouraged even non-union firms to adopt more humane practices and pay higher wages, many Americans came to believe that unions were no longer as needed or useful as they once were. However, not all of the traditional problems that led workers to turn to unions have vanished, and new challenges to workers have arisen in many industries and occupations. Organized labor still has a vital role in shaping California's future, but in order to do so, it will have to redefine in many cases the relationship not only between unions and employers but also between workers and the labor movement.

Today only two percent of computer workers engage in collective bargaining. Unions in the past either have not tried hard to organize workers in this industry or they have encountered both stiff employer resistance and the belief by many workers that traditional forms of unionism do not address their needs. The industrial unionism of an earlier generation was appropriate for representing the workers of California's old economy, but a different kind of unionism will needed for many workers in the new economy.

Like unions that successfully brought collective bargaining to California's entertainment industry, the next generation of unions will need to organize and represent workers who are hired for specific projects and frequently change employers. Like unions representing workers in the construction or maritime industries, the next generation of unions will also be called on to offer the training that provides their members with added value to potential employers. Similarly, the labor movement of the next generation will need to be as tightly woven into the fabric of community as many industrial and public sector unions are today.

We have already seen the first signs that this next generation of unionism is taking shape in California. In 1996, we saw it in Los Angeles where local union activists joined with community groups to win passage of a "living wage" ordinance guaranteeing higher pay for workers at non-union city contractors. Also, after a decade-long effort that involved building a community coalition to win new legislation and organizing a dispersed, contingent workforce, 73,000 home health care workers in Los Angeles recently voted to unionize. More recently, living wage policies have been adopted in San Jose and Oakland. In San Diego, Los Angeles and San Francisco, organized labor has won passage of ordinances designed to retain the same workers in city jobs that are under contract to outside firms, even if the contractors may change.

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In San Jose the labor movement has recently formed together@work, an organization for contingent workers primarily in clerical fields. together@work represents one face of the new unionism, by forming a network that covers many firms, provides portable benefits, offers training and helps to establish a regional definition of skill standards. In addition, this growing organization acts as an advocate for contingent workers at the same time that it is providing services. San Jose's labor community has also established its own temporary employment agency. The agency is demonstrating that it can pay temporary workers at higher rates than other staffing firms while operating according to a code of conduct that respects workers' rights and needs.

This kind of reinvented unionism alone will not forge the new social contract, but it can provide models for unions and employers. In the long run, however, without vigorous and comprehensive collective bargaining, there is little assurance that even jobs in the sparkling industries of California's new economy will help the next generation of Californians to take their rightful place in a growing middle-class.

This new social contract must do at least three things. It must guarantee that prosperity is shared equitably by all. It must reduce insecurity for workers and provide a more stable community and workforce. It must assist workers in forging a lifelong

Building a new social contract requires far-sighted leadership from leaders in business, government and the labor movement.

career, with education as needed along the way, that provides the opportunity for growing rewards and meaningful work. This cannot be done if workers are treated as disposable components or if businesses declare war on organizations that workers form to gain a voice in their work. Building a new social contract requires far-sighted leadership from leaders in business, government and the labor movement to develop the institutions of a democratic society for a new economy.

Amy Dean
Founding Director
Working Partnerships USA
May 1999

Executive Summary

Over the past decade, California's economy has changed in striking ways that have profound implications for the state's working families. This report's central conclusion is that California's recent dramatic economic growth has carried with it a hidden and escalating cost—increasing economic insecurity for most workers at a time when there are fewer tools available to help them adapt. Workers at all income levels are increasingly vulnerable to rapid changes in our volatile, information-based economy; and inequality has not only increased markedly but also is likely to grow further if forceful policies are not adopted to reverse the trend. Given the heightened instability and rapid change inherent in our rapidly growing technology sectors, even many working families who are doing well at the moment face uncertainty about their economic futures.

The causes of these problems are deeply rooted in the nature of our new economy and particularly in the failings of our social and public institutions to adapt to these economic changes. Solving them will require fundamentally rethinking the nature of our social contract. Government, business and labor must develop new institutions and policies that protect the working poor and raise their wages, provide effective bridges from low-paid to high-paid occupations and industries, and provide life-long learning opportunities that help people find rewarding work, even in the face of economic volatility.

Economic Transformation

In the early 1990s, California underwent its most severe economic downturn in a generation. Damaging effects of a national recession were compounded by reductions in military expenditures, which hurt the large defense sector of the state economy. There was a net loss of more than a half million jobs between 1990 and 1993.

Since 1993, however, economic growth has been unusually dynamic, both in the scale and the pattern of the recovery. Other

WORKING CONDITIONS IN THE TIGHTROPE ECONOMY

Major findings of this report:

(except where national figures are specified, all statistics refer to California)

Temporary employment agencies constitute the industry with the greatest employment growth in the last five years. Employment in the temporary employment industry expanded by 182,900 people between 1993 and 1998. This is more than the net job growth in the software and electronic component industries combined.

Major Findings

Job change is pervasive in California. The median tenure for workers at their current job is only three years, and 45% of California workers have worked for their current employers for less than two years. Only 21% of California workers have worked for their current employers for more than 10 years, compared with 34.5% nationally.

recoveries reflected the cyclical rebound of the state's traditional employers, but the current expansion has been led by industries which, in some instances, barely existed 15 years ago. High-tech manufacturing, software development and Internet companies—combined with motion pictures, multimedia and a handful of other information-related industries—have not only led this California recovery but also are transforming the structure of the state's economy. Older industries are also adopting new technologies to enhance their own competitiveness. California's economy today is significantly different from what it was 20 years ago.

Many analysts argue that this new economy has laid the groundwork for broad growth and prosperity in this state for years to come. Their optimism could be easily understood. California's economy has flourished in recent years thanks to its new high-tech industries and its proximity to overseas markets that were rapidly expanding during most of the decade. Merchandise exports more than tripled from 1987 through 1997 and grew 53% between 1993 and 1997 alone. Jobs have been created in California over the past few years faster than in the rest of the nation, especially in many high-paying technology industries, such as software and Internet companies.

The 'Don't Look Down' Economy

While this continuing economic expansion has generated enormous wealth for many firms, it has not significantly increased the income of working families overall. At the same time, the new structure of the state's economy is creating disturbing new trends that threaten these families' well-being, including:

- **Growing Insecurity and Volatility:** Increasingly firms need to innovate constantly, responding rapidly to technological and economic change and taking advantage of new opportunities. This 'competition by innovation' creates high-levels of insecurity in employment for large sectors of the workforce, including employees within high-tech industries facing unstable and rapidly changing market conditions. There has been rapid growth in the number of workers employed in temporary, contract, or other forms of contingent employment. Many other workers regularly lose their jobs and have difficulty finding new ones.

- **Divergent Trends in the Employment Structure:** A growing gulf is appearing both between certain sectors of the economy and within each sector. First, there is the expanding disparity between high skilled, globally integrated, high-productivity industries and industries that mainly serve local markets and primarily pay low wages. Janitors, home-health care workers, and waitresses are essential parts of our new economy, but they benefit very little from high-technology growth. Second, there is also increasing disparity within economic sectors. Even in the global, high-tech sector, full-time workers at core companies in the new networks of production may have high incomes and relatively secure jobs while workers at sub-contractor firms earn low wages and experience much instability in their employment.

- **Growing Income Inequality:** As a result of the factors outlined above, as well as changing demand for education and changing demographic characteristics of the workforce, there is growing inequality in income in California. This expanding income gap is occurring NOT primarily because wages are growing much faster for those at the top of the occupational structure, but instead because wages have declined for workers at the bottom and middle of the labor market. Since this inequality has widened during the strong rebound of the state's economy, clearly economic growth alone cannot be relied on to raise the incomes of those at the bottom of the income distribution or reduce inequality.

Major Findings

People who lose their jobs are spending a longer period unemployed than in the past. Nationally, the average length of unemployment in the 1990s for men was 17.3 weeks, up from 13.1 weeks in the 1970s. For older workers—who face the greatest difficulties in retraining—the average length of unemployment for men in the 1990s was 25.3 weeks, up from 19.1 weeks in the 1970s.

Major Findings

Nearly 40% of the new jobs projected for California in the next ten years will be in occupations requiring only a high-school education or less and brief on-the-job training. At least 36% will be in occupations that pay on average less than $10/hour.

Polarization of wages is most striking among workers with different educational backgrounds. In real dollars, the average hourly wage for workers without a high school diploma was $8.25 in 1998—a decline of 36% since 1979. By contrast, the average hourly earnings of workers with advanced college degrees have increased 11% since 1979.

Because of this fundamental transformation of the state's economy and the dramatic growth in information technology industries, most Californians now must walk a lifelong tightrope —one that is poorly anchored in stressful and unstable employment. At the same time, people face serious potential risks if they slip on this tightrope or the rope fails. Economic vibrancy and volatility seem to be two sides of the same coin. While California's emerging economy carries the promise of continued growth and added prosperity, most families will not share in this potential if the great divisions and imbalances of the new economy are not addressed.

The Social Contract, Old and New

Today's level and forms of insecurity and inequality are quite new. In the three decades after World War II, the United States experienced a period of remarkable economic stability, accompanied by rising wages and improved standards of living for the vast majority of Americans. These "wonder years" of the American economy, however, did not rise simply from market dynamics. Instead, they were made possible by a series of national policies that created a broad social contract. These policies—ranging from the unemployment insurance and social security systems to the minimum wage and our system of labor relations—created an institutional and economic system that was beneficial to nearly everyone. Business flourished because of a growing consumer middle class. Productivity gains were passed on to workers in the form of higher wages. Government programs helped limit the severity of economic downturns and redistributed the fruits of prosperity to the less fortunate.

These policies, however, were developed for an industrial economy when employment was relatively stable and firms retained long-term ties with their employees. Since the early 1970s, such policies have been eroded and are no longer serving the function of stabilizing the economy by broadening access to its benefits. In today's economy, with greater volatility and more tenuous ties now typical of the relations between employers and employees, the policies of the post-war years are largely inadequate to provide support for most workers.

A new social contract is needed to guarantee that prosperity both continues to grow and is equitably shared in the new economy. Public policies must be designed to support the economic flexibility that firms need to be competitive while also minimizing insecurity and ensuring that the risks and rewards of the new economy are divided more broadly.

Because the economic changes which have occurred are fundamental—creating entirely new industries and dramatically restructuring both competition and production systems in older industries—the new social contract must be comprehensively redesigned. Piecemeal reforms of existing programs and institutions will likely be ineffective. As the old system breaks up, we also have an opportunity to build institutions that are more inclusive than in the past, creating a new social contract that truly realizes the ideals of a democratic system with opportunity for all to fulfill their potential.

Developing such comprehensive reforms will not be easy. During the era of industrial mass production in this country, it took a major depression to provide the stimulus to create policies and institutions appropriate to the new structures of employment. Californians today should learn from mistakes of the past and implement a comprehensive new social contract at all levels—local, state, national and global—before the costs of inaction escalate.

The purpose of this report is to present a framework for a new social contract. Finding the most effective policies and institutions will require refinement through research, discussion, and

Major Findings

In the public sector, the average hourly wage for union workers was $19.21—nearly 23% more than the $15.67 per hour earned by non-unionized public employees. In addition, unions raised the average wage of their members 7% from 1985 to 1997, while the average wage for non-unionized public sector workers declined by nearly 7% over the same period.

Major Findings

Despite declining unemployment and economic expansion, wages have stagnated or declined for most workers. Between 1994 and 1998, a period of major expansion, the real median wage for all workers declined by 1%. For male workers, it declined even more, by 5% over four years. Long-term trends are even more alarming. In real terms the 1998 median wage of $11.96 an hour was 10% lower than the median wage in 1979. The average hourly wage for men at the low end of the labor force (the bottom 20%) was $7.13 in 1998, nearly 30% less than the equivalent hourly wage in 1979.

experimentation in the community, the state and the nation. Any new social contract, however, will have to address four social needs:

- **Increase Workers' Earnings and Financial Assets:** Most workers—not just those earning very low wages—need higher incomes. They especially need policies that increase their earnings over their entire work lives and that help them accumulate a variety of financial assets. In addition to providing a more secure livelihood, expanding workers' financial assets can help them deal with layoffs or displacement.

- **Reduce Insecurity and Minimize the Harm of Dislocation:** Dislocated workers need more support during periods of economic pressure and more assistance in finding new jobs which provide adequate incomes.

- **Provide Lifelong Education for Work and the Development of Careers:** To find and keep good jobs in the new economy, workers need access to education throughout their work lives and organizational help in developing careers and networks of support.

- **Promote the High Road to Economic Development and Block the Low Road:** Economic development programs and public subsidies should reward only employers who pursue high-road strategies to counter competition and grow. In addition, public policy should cut off assistance to firms that try to compete by avoiding regulations, cutting wages and benefits, increasing insecurity, or excessively eliminating jobs.

In order to ensure the effectiveness of these approaches, public authorities need better systems to identify and document insecurity. Additional data will both help officials locate the particular industries, occupations or regions where earnings fluctuations are more frequent and understand the impacts of instability on families, thereby facilitating development of targeted assistance and retraining programs.

Ultimately, with such a comprehensive approach, appropriate public policies can support economic flexibility and minimize the problems of insecurity, while also ensuring broadly shared prosperity. In this win-win-win scenario, a new social contract could make the new economy work for everyone.

Major Findings

Labor unions, which now represent a much higher percentage of workers in the public sector than in the private sector, continue to significantly improve their members' income in private sector employment. In 1997, the average hourly wage for all unionized workers in the private sector was $16.80—a full 20% more than the $13.93 hourly wage earned by non-union employees. However, the loss of relatively high-paying unionized jobs in the manufacturing and defense related industries contributed to a decline in the average wage for private sector unionized workers in recent years.

NOTES: